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C O N F I D E N T I A L SECTION 01 OF 03 VILNIUS 000696

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TREASURY FOR DWRIGHT IN OFFICE OF EUROPE AND EURASIA

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TAGS: [PGOV](#) [ECON](#) [EFIN](#) [LH](#)

SUBJECT: LITHUANIA PASSES BUDGET, FACES DEFICITS AND
PROTESTS

REF: A. VILNIUS 678

[B](#). VILNIUS 645

[C](#). VILNIUS 459

Classified By: Acting Deputy Chief of Mission John M. Finkbeiner for reasons 1.4 (b) and (d).

[1](#). (C) SUMMARY: After weeks of negotiation and debate, the parliament passed the GOL's 2010 budget on December 11, one day after passing a social-security budget. Both budgets contain deep cuts, but the government still faces billions of dollars in deficits and projected borrowing for the coming year. Pensioners, businessmen and others have gathered peacefully to protest the budgets, and we have been told that the GOL expects more, and perhaps violent, protests. The cuts in the budget make it less likely that the GOL will have to seek standby financing from the International Monetary Fund, a Finance Ministry official told us. President Dalia Grybauskaite said on December 21 that she would sign the budget law. End summary.

[2](#). (U) With a rare display of party discipline and some vital assistance from another faction, the governing coalition in the Seimas (parliament) passed the 2010 GOL budget on December 11. Opposition parties also struck a united position in voting against the budget, which passed 81-56, with two abstentions and two members absent. One party that is in neither the coalition nor the formal opposition cast its 11 votes for the budget, and said later that it hoped to receive a Cabinet position for its stance, which was instrumental in passing the budget. The four-party coalition holds 71 of 141 seats in the Seimas.

[3](#). (U) The budget, when combined with the State Social Insurance Fund (SODRA) budget passed a day earlier, includes a deficit of 7.624 billion LTL (3.32 billion USD), or about 9.1 percent of GDP. The GOL's 2010 budget includes a deficit of 4.929 billion LTL (2.14 billion USD), a slight increase over the 4.822 billion LTL deficit in the 2009 budget. In 2008, however, before the economy soured, the GOL's budget deficit was only 1 billion LTL. Spending for 2010 should be only 1.4 percent less than in 2008, but revenues will be 16.8 percent below 2008 levels, according to the budget.

[4](#). (C) The 2010 budget displayed cuts that we expected (ref B). Darius Sadeckas, Deputy Director of the Ministry of Finance's Budget Department, said the national budget -- which includes all ministries as well as municipalities -- will be 911 million LTL (about 396 million USD) less than in [2009](#). Major cuts include an effective reduction of 33.8 percent or 1 billion LTL (about 435 million USD) to non-investment and non-wage expenditures such as utilities, business trips and office supplies as well as additional wage reductions on top of those that apply from July 2009. In addition, payroll funds for various classes of government workers are being cut up to 10 percent. Overall though, the GOL budget will increase by 563 million LTL (245 million USD)

next year, when 7.891 billion LTL in EU funds -- an increase of about 23 percent over this year -- are included. Sadeckas also said that GOL borrowing, estimated at 13 billion LTL (5.7 billion USD) in 2010, will be slightly higher than the 12.8 billion LTL (5.6 billion USD) previously reported (ref B). The national budget deficit is forecasted to be 4.929 billion LTL (2.14 billion USD) in 2010 or about 5.9 percent of GDP. In the 2010 budget, the Seimas refused to cut defense spending, and approved a drop in the corporate profit tax from 20 to 15 percent.

15. (C) The most controversial reductions are not part of the national budget but are included in SODRA. Sadeckas, although not an expert in SODRA, as this fund is managed under the auspices of the Ministry of Social Security and Labor, said that SODRA social expenditures will experience broad cuts. He mentioned that monthly pensions that exceed 650 LTL (283 USD) will be reduced by a minimum of 5 percent. State worker pensions will drop by 10 percent and those of widows by 5 percent. Working pensioners could see their benefits cut by up to 70 percent, depending upon their earnings level. In addition, unemployment benefits will be reduced. Thanks to resistance from Grybauskaite, maternity benefits will not see cuts take effect until July 2010. Disability benefits also will remain static, despite allegations of significant abuse of that program by many recipients.

Social-security head steps down

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16. (C) Shortly after the SODRA budget was passed, the director of the SODRA board resigned, apparently at the request of the Minister of Social Security and Labor. The director, Mindaugas Mikaila, had held his position since 2003. He declined to comment to the media, saying, "Ask the minister. The decision shall be taken by the minister." No reason was given for his departure, but we have been hearing rumors in recent months of dissatisfaction with his management, as well as of possible mismanagement. We also think it quite likely that the ruling Conservative Party wanted to put its own person in charge of the large and important SODRA operation.

GDP contractions

17. (C) Sadeckas said that Ministry of Finance predictions for GDP contraction in 2009 and 2010 remain officially unchanged from September 11: 18.2 percent contraction in 2009 and 4.3 percent contraction in 2010. He added that the 2010 budget was calculated using a 4.3 percent contraction in GDP. This differs from the 15.2 percent contraction prognosis for 2009 and 1.5 percent for 2010 that we heard from the Bank of Lithuania in late November (Ref B). Positive growth, however, is not far off according to Giedrius Miliauskas, a member of the President's Economic and Social Policy advisory staff. He asserted that the economy has hit bottom and will begin to grow in the second half of 2010 (Ref A). Nonetheless, he said the budget will not experience any benefit for 1.5 years. Sadeckas divulged that the GDP growth reported for the Lithuanian economy from the second to the third quarter this year was probably an anomaly, likely the result of an economic model recording an excessive drop in growth in the second quarter balanced out by growth in the third. Sadeckas added that the Statistics Department, however, is unlikely to issue a revision to the figures.

18. (C) Sadeckas said that the cuts to GOL expenditure make it less likely the GOL will seek IMF standby financing. He also mentioned that the official line of the GOL is that euro entry cannot be considered as a policy option until 2013,

with 2014 likely being the earliest Lithuania will enter the European currency union.

Reaction

¶9. (C) Several peaceful demonstrations occurred around the time of the budget votes, primarily to protest pension cuts. Small-business owners, pensioners and a few minor political parties fond of joining protests have participated in the various demonstrations. The protests were watched over by a large number of police, but about 300 law-enforcement officers also participated in one protest. The three demonstrations, all on different days and with different organizers, ranged in size from 800 to 2,000 participants. One Conservative Seimas member told us before the budget passed that the GOL was expecting and preparing for numerous protests, with a strong possibility of violence, in the aftermath of the budget vote. Fortunately, no such violence has been seen.

¶10. (U) On December 21 Grybauskaite announced that she had agreed to sign the budget. She earlier had praised the Seimas for summoning sufficient political will to pass a budget, and said that even an imperfect budget was better than no budget at all. In the end she noted that her decision reflected the need for Lithuania to meet its obligations to its pensioners, and to ensure the government's continued access to international credit markets to finance the budget deficit.

Coalition reshuffle?

¶11. (C) Lithuania United, whose 11-member parliamentary faction split from the National Revival Party a few months ago (ref C), is not part of the four-party governing coalition (though National Revival, with seven Seimas members, is). But after all 11 members supported the budget, faction leaders said they hoped they would be given the opportunity to name a Cabinet member. Media have reported that Prime Minister Andrius Kubilius has said he will find a "proportionate position" in the coalition for Lithuania United. While Kubilius gave no details, media have said talks have focused on the possibility of Lithuania United naming a replacement for Interior Minister Raimundas Palaitis, Culture Minister Remigijus Vilkaitis or Economy

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Minister Darius Kreivys. National Revival is now one of the smallest coalition members, but was able to name Vilkaitis and one other minister when the Kubilius government was formed in late 2008. The Liberal and Center Party, also with seven seats in the Seimas, named Palaitis along with one other minister. Kubilius' Conservative Party, with 46 Seimas members, named Kreivys and six other ministers, in addition to the Prime Minister himself. The Liberal Movement Party, with 11 Seimas members, named three ministers.

¶12. (C) Comment: The Seimas and GOL have had little time for anything except budget matters in recent weeks, and passage of the budget was so uncertain that there was talk of the government collapsing over the issue. The ruling coalition forbade its members from leaving town at times when budget votes were expected, and managed, when the final budget vote came around, to enforce a level of party discipline rarely seen in this Seimas. Lithuania United's negotiations on joining, or at least aligning with, the coalition appear to have paid off for them as well as for the Kubilius government, though how the Cabinet reshuffle will be handled remains to be seen. Most importantly, the government -- which had to make budget cuts and raise taxes within weeks of assuming power just over a year ago -- found the political will and the allies needed to push through even more difficult and unpopular measures such as pension and social-benefits cuts necessary to help Lithuania through its

current economic crisis.
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